



CLEAN WATER ACTION

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Written Testimony of Roger Smith
Campaign Director for Clean Water Action
Before the Connecticut General Assembly Energy & Technology Committee
March 7, 2008

Testimony in Opposition to SB 587:
An Act Concerning Electric and Gas Conservation Incentives

As we understand it this bill would require the Department of Public Utility Control to order the electric utilities to decouple distribution revenues from electricity sales by dramatically raising fixed distribution charges which customers pay regardless of their energy use.

While we strongly support removing the incentives for electric and natural gas utilities to maximize sales this is not how to do it. **We should instead direct the DPUC to move forward with a full sales adjustment clause.** This would return money to consumers if utilities sell more energy than projected and over-recovered their fixed costs, or reimburse the utilities with part of the consumer savings from times when customers use less energy and utility sales drop.

There is a fundamental flaw in the fixed customer charge approach is the price signal it sends to consumers. **Recovering more revenues through a fixed charge sends a signal that each additional unit of gas or electricity consumed has a lower cost to consumers (and to society) than it actually has.** Connecticut's energy problems are in large part that of *peak* energy usage, and ratepayers are currently spending a tremendous amount of money on congestion charges, transmission lines and new peaking power plants, so anything which insulates consumers from the real costs of supplying each additional amount of energy is a misguided policy. This also holds for natural gas where we should strive to avoid the need to build new infrastructure, including pipelines, refineries, and gas terminals, and to reduce the need to drill for gas in sensitive areas.

This customer charge approach undervalues the costs of expanding capacity and of the environmental harm from greater fossil fuel combustion for heating and electricity. It is essentially the opposite of the Summer Energy Savers program as this would in effect increase the rate of electricity for customers who use less energy. It runs counter to the goals of PA 07-242 to turn to conservation as our energy resource of first resort. **It is profoundly unfair to low-use customers,** including low-income ratepayers and consumers who conserve, as they subsidize the high usage of other customers through the increase in fixed customer charges.

Increasing energy efficiency for electricity and natural gas users is the cornerstone of Connecticut's Climate Change Action Plan and key to Public Act 07-242. Along with clear environmental benefits, efficiency is the best tool we have to protect consumers from rising energy costs. Unfortunately, the current rules for regulated gas and electric utilities effectively discourage them from aggressively promoting energy efficiency. **Why are we continuing to incentivize gas and electric utilities to increase sales?** Although often mentioned as the solution, lost-revenue recovery mechanisms do nothing to stop utilities from attempting to sell more gas and electricity as it increases their profits.

We encourage the Energy Committee to direct the Office of Legislative Research to study the example of decoupling in California and its lessons for Connecticut. They have over two decades worth of history for natural gas and electricity. Below are excerpts from a 2006 Pacific Gas and Electric company presentation.

Appendix I: Slides from 8/2/06 presentation to the National Association of Regulatory Utility Commissions by Roland Risser, Pacific Gas and Electric Company, on decoupling

Decoupling at PG&E – A Long History

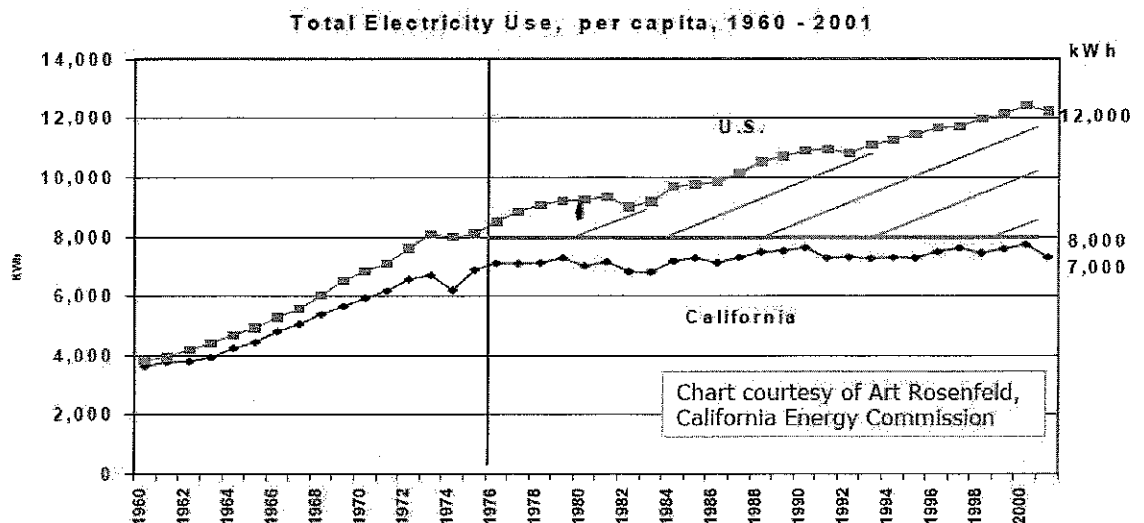
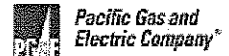


- Decoupling of revenues/sales for non-fuel costs began in 1978 for natural gas; 1982 for electric:

"...the adoption of an ERAM [Electric Revenue Adjustment Mechanism] ... will eliminate any disincentives PG&E may have to promote vigorous conservation measures and also be fair to ratepayers in assuring that PG&E receives no more or no less than the level of revenues intended to be earned."

California Public Utilities Commission
Decision 93887, 12/30/1981

California's Real-World Success in Decoupling



- ☐ To address last winter's huge escalation in natural gas costs, PG&E deployed several winter initiatives to encourage conservation
- ☐ Reduced gas demand from conservation resulted in \$47 million decrease in transportation revenues
- ☐ Without decoupling, program would have had negative impact on PG&E's financials – and very likely would not have been proposed

Finally, it is outrageous that our investment in natural gas efficiency for the entire state is less than \$8 million annually, and removing gas utility reluctance to promote aggressive conservation will help increase conservation funding at the DPUC. **To illustrate the problem we have attached testimony from Northeast Utilities (Yankee Gas/CL&P) to the DPUC regarding decoupling.** This highlights the folly of our current incentive structure as they attempt to defend unnecessary and wasteful energy use, which helps increase their profits. Note that the utilities ignore the economic costs of sending more money out of state for fossil fuels and the pollution resulting from this avoidable energy usage.

Appendix II: Testimony from Northeast Utilities (Yankee Gas/CL&P) to the DPUC
[Emphasis added by Clean Water Action]

January 17, 2006

Ms. Louise E. Rickard
Acting Executive Secretary
Department of Public Utility Control
10 Franklin Square
New Britain, Connecticut 06051

Re: Docket No. 05-09-09 – DPUC Investigation into Decoupling Local Gas
Distribution Company Earnings From Sales - Comments of The Connecticut
Light and Power Company and Yankee Gas Services Company on Draft Report

Dear Ms. Rickard:

On January 12, 2006, the Department of Public Utility Control (the "Department") issued a Draft Report in the above-referenced docket. Although the schedule in this docket does not call for Written Comments, The Connecticut Light and Power Company ("CL&P") and Yankee

Gas Services Company ("Yankee") (collectively the "Companies") file these comments for the Department's consideration with respect to the Draft Report's recommendation discouraging off-peak sales and a comment made about the relationship between a failure in unregulated businesses and an attempt to increase distribution and transmission sales to compensate. Neither of these issues was discussed at the hearing on November 3 or in any other document in the record.

Although the Companies recognize the importance of conserving limited energy resources, the Draft Report fails to recognize the significant benefits of promoting off-peak energy use. The Draft Report states that the Department seeks to "reduce sales involving non-essential uses of gas, such as gas grill and pool heating use"¹, among other things. Yankee notes that reducing these types of sales would have a detrimental impact on ratepayers and Yankee. Promoting these off-peak uses of gas helps keep rates down as incremental load to serve these uses adds little if any additional distribution costs but the incremental sales and revenue help recover distribution costs over more volumes, thereby reducing rates to all customers. There is a similar benefit on the gas supply side. Pipeline demand charges are generally set based on winter peak volumes and when off-peak loads are added, Yankee does not incur any additional pipeline demand charges to serve that load. Thus, costs would be the same but would be recovered over more volumes, lowering the unit costs of gas to the benefit of ratepayers. Any gas supply costs incurred are passed along directly to customers whose usage increases. It is important to recognize that natural gas is a more environmentally friendly and efficient energy source than other fossil fuel alternatives for those types of customer loads.

The Department questions the value of promoting non-essential off-peak uses of electricity for decorative and security lighting². The same rate theory applies here. Ratepayers are benefited when off-peak sales can be increased, and the direct incremental cost related to the increased sales is generally recovered directly by the participating customer, not by other ratepayers.

CL&P and Yankee respectfully request that the Department modify the relevant sections of the Draft Report and either strike the stated goal of lessening the value of off-peak non-essential gas and electric loads or recognize that any review of the value of off-peak non-essential gas and electric loads will be weighted against the economic benefits of promoting such sales.

Finally, the comment in the Draft Report that "failed attempts in unregulated businesses may have resulted in a greater focus of the electric DCs toward increasing the rate base of their regulated transmission and distribution systems as a way to increase earnings"³ is not supported by the record,

Should you have any questions regarding these comments, please contact either Kurt Plourde at (860) 665-3641 or Charles Goodwin at (860) 665-3597.

Very truly yours,
Janet R. Palmer
Manager-Regulatory Policy, CT
NUSCO
As Agent for CL&P and Yankee Gas

¹ Draft Report at 2, 17.

² Draft Report at 10.

³ Draft Report at 8.